Tenth Independent Evaluation Report to the IIC Board of Executive Directors

The IIC prepares Expanded Annual Supervision Reports (XASRs) on matured projects (according to good practice standards for multilateral organizations), and the Office of Evaluation and Oversight (OVE) reviews each report to verify the reliability of the analysis, impartiality and consistency in ratings, and completeness of the identified lessons learned. Once this review is completed, OVE then prepares a report for the Board of Executive Directors of the IIC.

Following is a summary of OVE’s Tenth Annual Independent Validation Report reviews 24 self-evaluation reports (XASRs) prepared by IIC staff in 2011. OVE reviewed each XASR to verify the reliability and impartiality of the analyses, consistency in ratings, and the appropriateness of the lessons learned that were identified. The report covered thirteen corporate projects and eleven financial intermediary projects that were approved between 2007 and 2009. The IIC agrees with OVE’s conclusions and recommendations.

Report Conclusions:

Favorable development outcomes were achieved in 19 (79%) of the reviewed projects. If results are considered in terms of overall IIC investment volume (which was US$187.9 million for the 24 projects), then 88% of the funds were directed to projects that achieved favorable development outcomes. Development outcomes are measured by the sustainability of results across financial, economic, environmental, and social objectives, as well as general contribution to private sector development. This percentage is similar to the previous two reports, where 81% of the reviewed projects in the 9th OVE report and 88% in the 8th report and were rated as having favorable outcomes. These are higher than the outcomes reported in the 6th and the 7th reports where 67% and 74% respectively were deemed to have achieved favorable outcomes. Overall, the ratings of IIC’s mature projects in the 10th report indicate solid progress in maintaining high development outcome ratings.

IIC’s goal of financing projects with both developmental potential and financial viability has been adequately met in this group of evaluated projects. In this current group, 88% (21 projects) received satisfactory Investment Outcome ratings which is similar to the ratings received by the groups reviewed in the previous two reports where 90% of the reviewed projects in the 8th report and 96% in the 9th report had received satisfactory ratings. Overall, in terms of investment performance, IIC results have improved over the last five reports (from 62% to 88%).

As in previous OVE reports, the IIC’s work quality was positively correlated with improved development and investment outcomes. Furthermore, OVE confirms a clear association between IIC’s work quality and developmental success. OVE applied a probability model to test statistically-significant associations between inputs and results and concluded that IIC’s work quality is positively correlated with development success. OVE’s analysis of all 195 projects they have reviewed to-date indicates that high work quality significantly reduces the likelihood of project failure in financial and developmental terms.

This 2011 group of projects also continues the pattern which first emerged in the 2010 OVE report where financial intermediary (FI) operations outperformed corporate projects in terms of

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1 Expanded Annual Supervision Report
2 Favorable (or high) outcome categories refer to “Mostly Successful”, “Successful” and “Highly Successful” in the development outcome 6-point classification range; and to “Excellent” or “Satisfactory” in all the other dimensions’ 4-point classification scale.
development outcomes. OVE’s first six reports (issued between 2002 and 2009) show corporate projects performing better than FI projects when 67% of corporate projects received high development outcomes as compared with 47% of financial intermediaries. In the current report, 82% of FI projects had favorable development outcome ratings as compared with 79% of corporate projects.

Sixty-three percent (15 projects) which received $131 million in IIC funding achieved favorable additionality ratings. This is lower than in the previous two years where 88% of the reviewed projects in the 8th report and 96% in the 9th report achieved favorable additionality ratings. When comparing corporate and financial operations, 82% of the financial operations achieved high additionality ratings with only 46% of the corporate projects doing so. This was largely the result of OVE applying stricter evidence requirements. It is likely that the lower additionality ratings achieved in this Group evaluated is that most of these projects were approved during the financial crisis when access to financing on reasonable terms and conditions was limited. Thus IIC played a countercyclical role when it offered financial terms which improved market access, mitigated risks and improved project sustainability. By participating, IIC not only supported capacity expansion but also protected employment and strengthened financial viability.

The 10th report was the first time that OVE was able to compare the Good Practice Standards (GPS) with IIC’s Development Impact and Additionality Scoring system (DIAS). Out of the 24 projects in this batch, 13 had DIAS scores. OVE concluded that, although DIAS has not been formally evaluated by OVE, DIAS scores were consistent with the GPS assessments, but less precise in capturing the magnitude of resulting development impacts. However, it should be noted that the DIAS indicators are designed to capture the development impacts of projects. DIAS has facilitated monitoring and evaluation over the entire project cycle given that DIAS scores are updated annually. This additional information collected annually helps for the preparation of XASRs. The DIAS provides an estimate of potential development results ex-ante and monitors performance throughout the project cycle as defined in the standards. However, some shortcomings have been identified. Therefore, IIC developed the DIAS Plus which enhances the measurement of development impacts and additionality.

OVE concluded that the continuous application of the GPS has helped IIC institute a discipline for systematically extracting project-based lessons learned. OVE concludes that IIC has been able to identify over 100 lessons learned that are potentially useful for improving future projects.

OVE also concluded that there has been positive progress in the IIC’s implementation of the 2013 OVE report recommendations. OVE noted that this was based on documentary evidence provided to OVE.

To-date, OVE has produced ten independent evaluation reports containing almost thirty recommendations. The IIC has implemented or made progress in implementing these recommendations. The most important ones were related to improving the measurement of development outcomes and additionality, establishing a lessons learned database, and providing value added services. As a result, the IIC has put in place, with OVE’s ongoing support, the most compliant evaluation system built upon the Good Practice Standards of the Evaluation Cooperation Group of Multilateral Development Banks (ECG-MDB). The IIC introduced the DIAS in 2008 to enable it to assess development outcomes and additionality throughout project life cycles, – from appraisal to evaluation. In 2008, the IIC also created the Technical Assistance and Strategic Partnership Division (TAS) to provide value-added services to its clients in addition to its financial support. It launched the intranet portal “Lessons in Action” which facilitates the documentation of lessons learned and feed these into new operations.
Following are IIC actions for implementing the 2014 report recommendations:

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<th>#</th>
<th>OVE Recommendations</th>
<th>IIC Actions</th>
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<tr>
<td>1</td>
<td>OVE recommended that in-depth sector/thematic analyses be carried out to further promote developmental results.</td>
<td>Currently, the IIC, SCF and MIF in collaboration with the VPP’s Office is conducting a study to evaluate their financial intermediary interventions not only at the project level but also on a sector level. The purpose of the study “The IDB Group’s Activity in Private Sector Lending through Financial Intermediaries” is to assess the direct and indirect impact of FI financing on SMEs. The study will help IIC to gain a more precise understanding of what it would take to assess development impacts at the end beneficiary levels. It will lead to improved products, services, and methods of intervention. Preliminary results are currently being discussed and the final report results will be available by the end of June 2014. Furthermore, the IIC is planning to conduct case studies to evaluate the results from working with large clients, and the overall development impact of repeat operations.</td>
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<td>2</td>
<td>OVE recommended that the IIC should enhance its evaluation capabilities.</td>
<td>OVE’s services to the IIC are mainly focused on project-level evaluations and related services covered by the OVE-IIC evaluation services agreement; however, the IIC would benefit from expanded evaluation services. As part of the Bank’s overall restructuring of IDB’s private sector windows, the IIC is proposing a more comprehensive approach to evaluation. In the context of a Renewed Vision for the activities of the IDB Group (IDBG) a single Evaluation and Oversight mechanism was proposed.</td>
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<td>3</td>
<td>OVE recommended that the IIC work with OVE to revise IIC’s project evaluation system to address current shortcomings and seek greater harmonization with the rest of the IDB Group.</td>
<td>IIC is prepared to work with OVE to revise the Good Practice Standards (GPS) of Private Sector Operations issued by the Evaluation Cooperation Group of Multilateral Development Banks. It should be noted that IIC is already working on the DIAS Plus which includes an enhanced set of indicators that go beyond GPS requirements. These indicators will allow more in-depth evaluation of projects, the extent of IIC additionality and, ultimately, better development results. IIC is now working with OVE to develop new standards which will be applied to the validation of a sample of the 2012 and 2013 XASRs. Also, the IIC is working with the private sector windows to harmonize the guidelines. These discussions with OVE and VPP are likely to lead to adjustments in the approach to private sector evaluation and to changes in IIC’s project evaluation system.</td>
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Concluding Remarks:
1. IIC was an early adopter of the Good Practice Standards for Private Sector Operations issued by the Evaluation Cooperation Group of Multilateral Development Banks (ECG-MDB). This was recognized by OVE in past reports concluding that the IIC has fully implemented its project-level performance evaluation system following the Good Practice Standards (GPS) for Private Sector Operations. This was also recognized by an external Benchmarking Review in 2010 commissioned by the ECG which concluded that the IIC had the most harmonized evaluation system among the MDBs. The IIC is aware of the dynamic nature of the GPS enriched by cumulative experience with MDB projects and institutional experience. IIC has consistently applied the changes to its evaluation methodology. While the 2011 XASRs were prepared by IIC based on the Third Edition of the GPS (GPS 3), the 2012 and 2013 XASRs (which OVE is currently validating) were evaluated based on the Fourth Edition of the GPS (GPS 4). Discussions among Evaluation Cooperation Group (ECG) members point to increased convergence of the standards for evaluation of public and private sector operations. As a final note, we would like to point out that any future changes to the GPS need to be considered within the framework of IIC’s mandate and focus on small projects with smaller clients. Therefore, it is important that any revisions to the system need to strike a reasonable balance between having to undertake heavy analytical efforts to enhance evaluation performance and the generally more straightforward efforts required to justify projects with the IDB Group’s smallest clients.

3 The Benchmarking Review concluded that the IIC had the most harmonized evaluation system among all private sector windows of MDBs, including the IFC and EBRD. The review was designed to compare the evaluation practices of multilateral development banks against agreed upon good practice standards. It concluded that the IIC’s evaluation system met 98% of the ECG-MDB good practice harmonization standards. The review also highlighted the importance of the IIC’s commitment to evaluation.
Annex A:

**IIC Actions to improve Development Effectiveness**

- Internal restructuring in 2012 elevated the Development Effectiveness team from a unit to a division, now reporting directly to the Chief Operating Officer. Additional human resources were added in 2013, including the position of Development Effectiveness Division Chief (*ad interim*) and two consultant positions. These changes reflect Management’s commitment to further strengthen development effectiveness, as part of the IIC’s dual mandate of a credit-sound organization with a strategic developmental focus.

**Monitoring and Evaluation**

- In 2013, all 71 approvals received a DIAS score with an average of 7.47 score points. In the first two months of 2014 another 6 projects were added with a DIAS score of an average of 7.74. Since 2008, 536 approved projects have received a score including 163 which were retrofitted.

- For the fifth consecutive year, investment officers have monitored development indicators during project supervision in the same way they do for financial indicators. The information collected is included in the Annual Development Outcome Reports. In 2013, 173 operations were updated.

- In 2013, the IIC produced XASRs evaluating 10 projects, including 7 corporate projects and 3 projects with financial intermediaries. Also in 2013, OVE validated 24 IIC project evaluation reports—13 corporate projects and 11 projects with financial intermediaries which had been produced in 2011.

- The DIAS Plus will complement the DIAS system and was recently piloted by the Development Effectiveness Division (DVE) in cooperation with the Portfolio Management Division (PMD). The purpose of this exercise was to collect data and receive feedback from users in the field to fine tune the DIAS Plus tool. The DIAS Plus uses cross-cutting indicators as well as sector specific indicators across nine industries. This will allow the Corporation to capture more detailed information on the impact of IIC financing on all stakeholders. A technical briefing to the Board on the DIAS and the DIAS Plus was held May 20th.

- A development effectiveness component has been incorporated into the responsibilities of the Portfolio Management Division such that Supervision Officers focus more on collecting development data which will improve the Development Effectiveness Results Framework.

- In an effort to incorporate lessons learned and ex-post evaluation results into the design of new projects, the IIC continues to build on its lessons learned database “Lessons in Action”. This tool represents an important step toward building an institutional knowledge base on issues relating to SME development. To date, the IIC has contributed to “Lessons in Action” over 100 lessons learned from past projects and continues to develop more through the extended annual supervision report (XASR) process. In order to further improve the use of lessons learned, the IIC will incorporate the entire functionality of the Lessons in Action system within the new business process.
management system. The IIC will also extend the Lessons in Action system beyond IIC investments by including technical assistance activities.

Increasing IIC’s reach to SMEs

- Value chain transactions have proven to be an effective tool for reaching SMEs. Since 2000, the IIC has approved 53 value chain projects. Under the last business plan, the IIC financed 20 value chain projects for a total of US$127 million, reaching nearly 25,000 MSMEs. Because of the high development impact of value chain financing, the IIC will seek to expand this financing. While the criteria for direct financing and indirect financing through FIs is already well established, the criteria for establishing the merits of value chain financing have not been subject to the same rigor, standardization, and transparency. DVE in collaboration with other divisions (i.e. Debt Investments, Portfolio Management, Equity Investments, and Legal) has formed a Task Force to develop criteria for the selection of value chain operations. The criteria are divided into the following five areas; 1) strengthening the competitiveness and business performance of value chains; 2) strengthening and expansion of value chain structures; 3) improving environmental, social, and corporate governance; 4) knowledge and technology transfer; and, 5) strengthening social inclusion. A value chain project would need to meet at least three of the five criteria to quality for financing.

Harmonization Efforts

Collaboration with the Office of the VPP

- In recent months the IIC has been working closely with the Principal Advisor for Private Sector Development Effectiveness in the Office of Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations (VPP) at the IDB to ensure that refinements of new development impact measurement tools that are introduced are consistent with the goal of achieving a common evaluation framework for IDB Group’s private sector activities.

- Several development effectiveness retreats among the development effectiveness teams of the four private sector windows have been organized to share experiences and to learn from each other. This process has led to the creation of working groups which deals with topics important for strengthening cooperation and harmonization: i) metrics issues; ii) ex-post evaluation guidelines; iii) incorporation of value chain issues into agriculture projects; iv) impact evaluation; and v) mainstreaming gender into private sector operations. The objective of the working groups is to increase collaboration among windows, to learn from each other and harmonize methodologies.

- The IIC contributed to the publication “Private Sector with Purpose: Maximizing Development Results” prepared under the leadership of VPP. The report is the first combined effort to annually synthesize and communicate results achieved by the private sector windows of the IDB Group, including the IIC, SCF and OMJ. This publication covers development effectiveness results achieved to 2013.

- The IIC is contributing to a thematic study on the “IDB Group’s Activity in Private Sector Lending through Financial Intermediaries” which is being carried out by a consultant hired in December 2013. The purpose of the study is to assess the development impact of FI lending in an effort to gain a more precise understanding of
what it would take to determine the development impact at the end beneficiary level. The final report will be available by June 2014.

• Early 2013 marked the beginning of a joint IDB-IIC effort to develop a renewed vision for the IDB Group’s work within the private sector. As part of the process for updating the IDB’s Corporate Results Framework (CRF) as mandated by the Governors, IIC has contributed to a new CRF that will use higher order result indicators to reflect shared institutional goals. A working group on CRF has been set up with members of all four private sector windows of the IDB Group along with representatives from IIC’s Operations, Legal, and Development Effectiveness divisions.

Collaboration with other Development Finance Institutions (DFIs)

• In October 2013, the IIC and 25 multilateral and bilateral development institutions pledged to promote increased collaboration among DFIs and strengthen the role of the private sector in development. A memorandum was signed by the 25 DFIs who have agreed on a set of indicators to facilitate measurement of project development results. The purpose of this Memorandum is to set forth the intent of the institutions to incorporate these indicators into their results reporting systems.

• The purpose of the initiative is to improve comparability and the overall quality of data collection on results and to ease the reporting burden on shared clients. Every DFI utilizes indicators to track the development results of its operations; however, DFI’s do not use the same indicators, and even where there is some commonality, definitions can vary. This makes comparison of reported results difficult. It also imposes a hidden burden on DFI clients because it creates duplicative and sometimes redundant reporting requirements. In light of these issues, DFIs recognized that it would be beneficial if they worked together to define a set of development indicators which all would use. Therefore, a “Working Group on Harmonized Development Results Indicators” was created in 2010 by the DFI community for this purpose.

• The IIC, along with SCF, participated in the Development Results Indicators Harmonization Working Group. The IIC has been an active participant in this exercise. This was a long process but agreement was eventually reached in June 2013. The consensus is a landmark achievement. DFI’s will share client reporting with one another, and ultimately with the public which will provide a coherent global narrative on development results which have been measured and proven. In the process, clients will save time and money by having reduced reporting requirements.

• This harmonization work will help IIC to enhance the DIAS. The DIAS Plus Matrix incorporated most of the harmonized sector specific indicators. This will allow us to refine and sharpen our focus on key development results. It will also improve the analytical content of loan proposals.

• In early 2013, FinnFund approached the IIC asking to use the DIAS as a benchmark for the evaluation of its ex-ante appraisal tool called the Development Impact Assessment Tool (DIAT). This demonstrates the DIAS’ strong reputation among its DFI peers.

Strengthened Focus on Additionality: Technical Assistance
In 2013, the IIC has decided to consolidate the way it is measuring results of both the financial and non-financial products. To this end, the IIC is working in incorporating new indicators in the DIAS PLUS tool, where crosscutting indicators will be measured consistently throughout the programs and will be aggregated with the indicators for IIC’s financial products. During 2014, the IIC will be working in designing the DIAS PLUS Tool for technical assistance, defining which are the indicators as well as the mechanism to deploy the monitoring and evaluation of these indicators, and finally the compilation of these results will be stored in a system that will facilitate the monitoring and reporting on the impact of TAS activities.

The IIC also started a knowledge management process where all the content from TAS activities has been mapped out for further transformation into other tools. As a consequence of this effort, the IIC has prepared content for 9 online courses, as well as for an online self-assessment based on the FINYME Diagnostics methodology and written success stories for each of the TAS programs.

IIC donors approved US$5.9 million in funding under the IIC’s six technical assistance programs. Contributions from the Republic of Korea, as well as Belgium’s Walloon Region, and the Nordic Development Fund, helped ensure the continued delivery of training and technical assistance services to thousands of Latin American and Caribbean SMEs looking to enhance their management and planning capabilities.

Moreover, under the FINPYME Diagnostic program the IIC received resources from the Korean Government to conduct a diagnostic and evaluation of the program in the Caribbean. For the FINPYME ExportPlus program, the IIC received approval from Belgium’s Walloon region to start activities in Belize and Panama, and from the Korean Government to launch the program in Paraguay and to develop and launch and new concept: the B2B model where Colombian and Korean companies met to discuss joint venture opportunities. Under the FINPYME Family Business program, resources were approved by Korea to provide IIC clients with knowledge and tools on how to improve their corporate governance. Furthermore, under the FINPYME Technical Assistance program, twenty two companies received advisory services to enhance their competitiveness, develop feasibility studies and environmental and social reviews and to monitor the construction of projects. Under the same program the IIC received resources to retain consultants to work at headquarters and in the region in the execution of technical assistance programs and in the identification of potential IIC clients. Under the GREENPYME Program, the IIC received resources from the Nordic Development Fund to continue with the awareness workshops, the audit program and the scholarship for engineers.

Strengthened Focus on Additionality: Environmental and Social Sustainability

A large part of the IIC’s additionality efforts in recent years has focused on promoting environmental and social responsibility among its clients. The IIC’s new Environmental and Social Sustainability Policy became effective at the end of September 2013 and includes various innovative elements to provide guidance to clients on how to improve environmental, social and governance practices. The specific inclusion of gender is one of the pioneering aspects of this policy both at the IDB Group and on the MDB stage.

The IIC also provided capacity building on environmental and social sustainability in an effort to go beyond safeguard compliance requirements, providing training and practical
examples for clients on how they can reach their sustainability goals, particularly important when working with SMEs. Vehicles to promote these practices include IIC’s Sustainability Week, as well as GREENPYME’s energy efficiency training programs.

- In 2013, the IIC’s Sustainability Week consisted of two workshops: (1) The “Environmental Management for the Financial Sector” workshop was designed to raise awareness among FIs about environmental and social risks and helped them recognize the advantages of strategic methods to manage and turn these risks into business opportunities. The workshop was held in cooperation with the Environmental and Social Safeguards Unit (ESG) of the IDB. (2) The workshop on “Energy Efficiency and Climate Change: Challenges and Opportunities for Businesses” helped participants transfer specialized knowledge and necessary tools to identify and adopt energy-efficient measures to reduce energy costs and the carbon footprint. The workshop was co-organized with Scotiabank Peru.

- The Climate Change Strategy Group and the GEF held a workshop to discuss the new GEF (GEF VI). The Corporation gave a presentation during this workshop on how it could potentially access GEF funds to help it enhance its agricultural supply chain projects, in particular so that the Corporation can help companies green their supply chains and obtain third party certification for environmental and social sustainability.

Strengthened Focus on Additionality: Corporate Governance

- In continuation of IIC’s effort to mainstream Corporate Governance into its lending and investment activities as a signatory of the Corporate Governance Development Framework since 2011, the IIC successfully implemented the Corporate Governance Toolkit which helps the officers identify governance risk. Currently, all IIC projects are screened by the Toolkit. In order to create awareness of the importance of corporate governance and provide concrete tools for the companies to implement in order to improve their governance, the IIC organizes annual client training workshops. In 2013, a two and half day workshop was carried out in Lima, Peru with 15 family owned companies from nine different countries. In addition, eight Investment Officers of the IIC participated in the workshop to learn more about the topic. In September of 2014, the IIC will organize its third client training workshop in Panama with approximately 50 representatives from family businesses in the region. The IIC also provides group workshops for non-clients to promote good governance practices through its FINPYME Family Business program. In 2013, four FINPYME Family Business workshops were organized in Barbados, El Salvador, Honduras, and Guatemala. One hundred thirty eight representatives of 67 SMEs and participated in these workshops. Over the course of 2013, two individual technical assistance projects were implemented for family-owned SMEs in Nicaragua and a financier institution in Peru.